

ANNUAL COMMUNITY ASSESSMENT REPORT

**City and County of Honolulu
Program Year 2015: July 1, 2015 to June 30, 2016**

HUD Point of Contact:

Ms. Rebecca Borja
Senior CPD Representative
Office of Community Planning
and Development
HUD Honolulu Field Office
1132 Bishop Street, Suite 1400
Honolulu, HI 96813
(808) 457-4673

City Point of Contact:

Ms. Holly Kawano
Federal Grants Coordinator
Department of Budget and Fiscal
Services
City and County of Honolulu
530 South King Street, Room 208
Honolulu, HI 96813
(808) 768-3930

Introduction

The Housing and Community Development Act of 1974, as amended, and the National Affordable Housing Act of 1990 require federal grant recipients receiving federal assistance under the Acts to submit an annual performance report disclosing the status of grant activities. The U.S. Department of Housing and Urban Development (HUD) is required by 24 CFR 91.525 to determine whether the grant recipient is in compliance with the statutes and has the continuing capacity to implement and administer the programs for which assistance is received. In accordance with 24 CFR 91.525, HUD's comments below and the cover letter above incorporate the Department's assessment of the City and County of Honolulu's (City's) program year 2015 performance.

In assessing the City's performance, HUD relied primarily upon the City's program year 2015 Consolidated Annual Performance and Evaluation Report (CAPER), technical assistance, on-site monitoring, and communications with the City's federal programs staff. During this period, the City generally met the intent of the and Home Investment Partnerships (HOME), Emergency Solutions Grant (ESG) and Housing Opportunities for Persons with AIDS (HOPWA) programs and was successful in its management of the HOME, ESG and HOPWA programs. However, HUD has serious concerns regarding the City's implementation of its Community Development Block Grant (CDBG) program and its on-going capacity to manage the program.

Significant Performance Conclusions

Overall, the City has had capacity issues with its management of its CDBG program as follows:

- The City failed the CDBG timeliness test on May 2, 2016 with a timeliness ratio of 2.47 taking into account the City's balance of CDBG program income and revolving loan funds. The City is current under a CDBG Workout Agreement and sanctions policy. Should the City fail to meet the 1.50 timeliness standard with the test is next conducted on May 2, 2017, the City will have its Program Year 2017 grant reduced by 100 percent of the amount in excess of 1.50 times the annual grant. The City's current timeliness ratio is 3.25 including CDBG program income and revolving loan funds. The City's current rate of CDBG expenditures puts the City at risk for failing the CDBG timeliness test on May 2, 2017 with a \$12,724,687 shortfall.
- The City has not resolved year old monitoring findings on compliance with CDBG eligible activity acquisition of rental housing and national objective low and moderate income housing requirements; CDBG loan conversion compliance, implementation of the City's CDBG Corrective Action Plan to invest in a grants management tool; and subrecipient monitoring.
- The fiscal year 2016 audit by the HUD Office of the Inspector General (OIG) of the City's CDBG program found that the City did not administer its CDBG program in accordance with HUD requirements related to cost eligibility and procurement. The City allowed a subrecipient to contract with one of the property owner's affiliates, restricted competitive procurement, did not follow the City's award requirements, did not review program income adequately, and lacked an effective grant administration structure. As a result, the City incurred grant costs of \$4,565,516 that were unsupported.

As a result of the City's recent history of unsatisfactory performance; lack of effective management systems in place to ensure program compliance; failure to timely resolve open findings; and concerns about the City's on-going capacity to manage its CDBG funds; HUD has determined that the City is a high risk grantee.

CPD Programs

CDBG

The City used CDBG funds to address affordable housing, homelessness, public services, public facilities, community development and economic development needs during program year 2015. During the program year, 100 percent of CDBG funds (excluding funds expended for administration and planning) were spent on activities that benefited low and moderate-income persons.

The City's Consolidated Plan describes the following high priority concerns that will be addressed through the CDBG program: housing and special needs housing, homelessness, community and economic development, and planning and administration. During the program year, the City expended \$4,914,962 CDBG funds on 22 projects. The City met or surpassed the following Consolidated Plan goals for Program Year 2015: to support the development of Neighborhood Revitalization Strategy Areas and provide microenterprise assistance; to provide services to victims of domestic violence; to renovate homeless shelters; and to improve public facilities.

HUD reviewed the City's report of progress for the Wahiawa NRSA. The City has taken steps to offer enhanced flexibility in undertaking economic development, housing, and public service activities with its CDBG funds in communities with approved NRSAs. However, the City currently has only one funded NRSA project, the Wahiawa Community Based Development Organization (CBDO) NRSA Project. The City should continue to work with its NRSA to create meaningful economic and employment opportunities and to demonstrate significant, measurable results towards revitalization of the NRSA community.

The City has 21 at risk CDBG activities. The City needs to complete the following at risk activities and bring them into national objective compliance: Hui Kauhale, Inc. Hibiscus Hill Apartments, Trillium Housing Services Kaneohe Elderly Apartments, Pacific Housing Assistance Corporation Senior Center at Iwilei, Child and Family Services, Gregory Housing Programs Housing and Supportive Services for Persons with HIV/AIDS, Helping Hands Hawaii, Wahiawa CBDO NRSA, Women In Need, Alternative Structures International Ohana Ola O Kahumana Phase I Plumbing and Septic System, Honolulu Fire Department Lan Acquisition for Hauula, Family Promise of Hawaii Support Services, Goodwill Industries of Hawaii, Inc. Ohana Center Energy Conservation, Kahuku Village Conversion, Kulana Malama, Habitat for Humanity Leeward Oahu, Child and Family Services Ka Pa Ola Improvements, Institute for Human Services Emergency Shelter Improvements, Parents and Children Together Ohia Domestic Violence Shelter Improvements, and Kokua Kalihi Valley Gulick Elderly Center Rehabilitation. HUD also identified three CDBG activities funded with Program Year 2015 funds that do not have executed subrecipient agreements: Kalihi-Palama Health Center Phase II, Nanakuli Hawaiian Homestead Community Association Agnes K. Cope Hawaiian Cultural Center, and Waianae District Comprehensive Health and Hospital Board, Inc. Malama Renovation. The City should continue to closely monitor these activities and ensure that they progress in a timelier manner. Failure to complete these activities in a timelier manner may result in repayment of CDBG funds.

HOME

The City is expending its HOME funds toward projects that will assist low- and moderate-income persons. During the program year, the City expended \$4,091,456 HOME funds on six projects. HOME funds are required to be committed within 24 months and expended within 60 months of the grant award. Failure to commit and expend funds within the required time period will result in the deobligation of the funds. During this period, the City met the commitment and expenditure requirements within the required time periods.

The City took affirmative steps to maintain its good standing in four out of five indicators measured by HUD regarding the City's HOME program performance. Specifically, the City maintained good standing in percentage of completed rental disbursements to all rental commitments, percentage of renters below 50 percent of the area median income, percentage of occupied rental units to all rental units and percentage of allocation years not disbursed. The City's efforts resulted in an overall ranking in the 55th percentile, which places the City in the top 48 percent of local participating jurisdictions in the nation.

The City has one HOME Program trouble indicator for the percentage of completed CHDO disbursements to all CHDO reservations. The City is ranked in the bottom 19 percent in the nation for CHDO disbursements to all CHDO reservations. HUD strongly encourages the City to take steps to improve its timely expenditure of the funds as poor performance in this area may result in the future loss of HOME funds.

The City has one HOME funded activities that is slow moving: Hui Kauhale Ewa Villages Area H. The City should work with the developer to complete construction and start operations. HUD also identified one HOME activities funded with Program Year 2015 funds that does not have an executed written agreement, the Housing First Rental Assistance program. The City needs to closely monitor these activities and ensure that they progress in a timelier manner. Failure to complete these activities in a timelier manner may result in repayment of HOME funds.

ESG

The City supported a number of homeless shelters and providers during the program year. The City expended \$628,811 ESG funds and carried out seven activities funding homeless shelter operations, essential services, homeless prevention and rapid rehousing. The City met or surpassed the following Consolidated Plan goals to strengthen communities for program year 2015 to provide emergency rental and utility assistance for persons experiencing homelessness and for persons threatened with eviction.

ESG funds are required to be committed within 180 months and expended within 24 months of the grant award. The City has failed to commit and expend \$31,961 in Program Year 2011 and \$23,286 in Program Year 2012 funds. As a result, HUD is deobligating the balance of ESG PY 2011 and PY 2012 funds. HUD has advised the City of the need to expend and draw these ESG funds in prior year Annual Community Assessment reports. Furthermore, HUD advises the City that it needs to expend and draw the \$4,619 balance of funds in its PY 2014 grant, or HUD will also deobligate these funds. The City's inaction will result in the City losing \$59,866 in ESG funds, which could have been used to address homelessness in Oahu.

HOPWA

The City distributes its HOPWA allocation to the Gregory House Programs and Life Foundation who provide tenant-based rental assistance, short-term rent mortgage and utility payments, and supportive services to individuals with HIV/AIDS. During the program year, the City expended \$359,450 HOPWA funds. The City met or surpassed its Consolidated Plan goal for program year 2015 to provide housing specific supportive services to persons with HIV/AIDS to secure and maintain their housing.

The City's support has ensured that the persons with HIV/AIDS in Oahu have greater access to affordable housing and special needs services. HUD encourages the City to continue its support of its HIV/AIDS providers.

Continuum of Care

During program year 2015, the City was the member agency for the Honolulu Continuum of Care (CoC). The Honolulu CoC application was awarded \$9,265,576 in CoC funding for eight permanent housing projects, three transitional housing projects, one safe haven, one supportive service only project, three homeless management information systems projects, and one CoC planning project. The City is a participant in the Hawaii Interagency Council on Homelessness, whose goal is to develop a plan to more comprehensively integrate a system of housing and services to assist individuals who are chronically homeless. The City works in partnership with Partners In Care to develop, enhance and implement a Continuum of Care strategy for the homeless. HUD wishes the City and its partners continued success in implementing actions to end homelessness.

Community Empowerment

As part of its Consolidated Plan, the City developed a Citizen Participation Plan. The Plan is intended to develop ways to involve the public in the development of the Consolidated Plan/Action Plan. Opportunities were provided for citizen participation in the development of the Plan and performance report. The City reported that no oral or written comments were received. HUD encourages the City to continue its efforts to foster public participation and encourages the City to explore additional opportunities to involve the public in its planning process.

Management of Funds

In accordance with the CDBG regulations, the timeliness ratio benchmark should be 1.50 sixty days prior to the end of the City's program year. On May 2, 2016, the City had a balance in the Line of Credit Control System, CDBG program income and revolving loan funds that was 2.47 times its annual CDBG grant. HUD determined that, for program year 2015, the City failed the timeliness test and was in noncompliance with the CDBG timeliness regulations.

The City is current under a CDBG Workout Agreement and sanctions policy. Should the City fail to meet the 1.50 timeliness standard with the test is next conducted on May 2, 2017, the City will have its Program Year 2017 grant reduced by 100 percent of the amount in excess of 1.50 times the annual grant. The City's current timeliness ratio is 3.25 including CDBG program income and revolving loan funds. The City's current rate of CDBG expenditures puts the City at risk for failing the CDBG timeliness test on May 2, 2017 with a \$12,724,687 shortfall.

Areas for Improvement and Recommendations

In order to improve CDBG program compliance, the City needs to ensure timely expenditure of grant funds, through:

- Strengthening the City's CPD (CDBG, HOME, HOPWA, ESG, etc.) programs grants management structure with clearly defined lines of authority and responsibility.
- Developing citywide written policies and procedures that govern the CPD programs and ensure compliance with CPD requirements.
- Building timeliness into the process of determining which projects to fund.
- Avoiding prematurely funding projects not ready to move forward quickly.
- Assisting subrecipients stage projects properly so large amounts of CDBG funds do not sit idle.
- Taking action to speed up the completion of existing projects and to obligate the funds faster by modifying or terminating projects.
- Completing environmental assessments and requests for environmental release of funds in accordance with 24 CFR Part 58.
- Strengthening the City's ongoing management of CDBG open activities and completed activities still within the CDBG eligible use period.
- Identifying project obstacles and developing plans to address these obstacles in order to strengthen its programs.

Fair Housing & Equal Opportunity

HUD encourages the City to continue its activities that address the impediments identified in the City's Analysis of Impediments (AI) document. The CAPER was forwarded to Mr. Jelani Madaraka, Lead Equal Opportunity Specialist, HUD Honolulu Field Office, to review

for compliance with Fair Housing and Equal Opportunity requirements. He will forward any comments or questions he may have under separate cover.

Conclusion

Overall, the City is a high risk grantee that needs to improve program compliance. While HUD has concerns about the City's CDBG program, HUD notes that the City has assisted low-to moderate-income communities and individuals. HUD encourages the City to continue its support of various housing and community development programs. In closing, HUD would like to recognize the City's staff for their hard work and dedication to the CPD programs despite decisions and program management issues that are beyond their control.